



Benefiting from the FTA

James Fox

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NATHAN
ASSOCIATES INC.

Benefiting from the FTA— Improved market access matters

- It will help consumers through lower prices and wider choices
- It will lower producers' costs for intermediate goods
- But it will not dramatically help exports—it is no panacea for a sluggish export sector
- Moreover, many access problems will remain, such as SPS and technical standards



BUT... sound domestic policies and institutions are critical

- Key factors
 - Overall economic policies (inflation, exchange rate, fiscal discipline)
 - Regulatory transparency and favorable climate for private investment (domestic and foreign)
 - Institutional infrastructure
 - Financial sector depth and strength
 - Quality and cost of telecoms and electricity
 - Quality, costs, and predictability of ports, customs, and transportation



Domestic policies and institutions

- Some caveats
 - Payoff from policy/institutional improvements is not always high
 - Great improvements in LAC since 1980 in macro policy and institutional infrastructure (e.g., privatization of power and telcoms) has been less than expected
 - Growth performance disappointing
 - Much of region failed to develop new export capabilities



Domestic policies and institutions (continued)

- Key initial policy areas
 - Consistent commitment to world economy
 - Stable, favorable real exchange rate for exports
 - Exporter access to inputs at world prices
 - Attraction of FDI
- Other policy actions/institutional improvements can come gradually with progress (e.g., customs reform, financial sector, privatization)



Domestic policies and institutions (continued)

- Key to policy success is to focus on critical areas, not to do everything
- Success breeds success
 - Export success can help push policies in right direction

Domestic policies and institutions—Country cases

- Both Costa Rica and Mauritius
 - Increased exports 25-fold between 1970 and 2000, producing rapid GDP growth
 - Initially used EPZs
 - Found that initial successes made later progress easier
 - Made steady improvements in institutional environment over time
 - Used sophisticated means to attract foreign investment
 - Investment promotion agency independent of government
 - High-quality staffing promotion agency



Support for exports

- Success depends on
 - Changing people's outlooks
 - Day-by-day progress on institutions
 - Country-specific diagnoses and actions
 - Supporting private sector and NGOs

Support for exports (continued)

- USAID can make a difference
 - USAID is potentially more effective than other donors in providing TCB for exporting
 - Revisions to PD-20 will permit broader scope of activities
 - Key capabilities are in-country capacity, flexibility, and capacity to support non-government institutions with grants



Support for exports (continued)

- Key issues in exports by domestic firms
 - Market research and official export promotion
 - Services for exporters
 - Quality, productivity programs
 - Role for SMEs

Export lessons

- Market research and export promotion
 - Key market information from outside firm comes from standardized, basic information
 - Deeper market research done inside firm
 - Official export promotion agencies seldom meet exporter needs (irrelevant, unfocused, untimely)
 - Exporter associations, sector groups more effective
 - Buyers also key source, and sometimes suppliers



Export lessons (continued)

- Services for exporters
 - Export financing typically not key constraint (although availability of credit may be)
 - Development of support services is linked to volume of exports
 - Donors, exporter associations can stimulate development of export services sector

Export lessons (continued)

- Quality and productivity programs
 - Role of buyers is critical; buyers can identify/solve most entry issues (SPS)
 - Industry associations need to play role in upgrading technology, quality
 - Donor funding of firm-level technical assistance, on 50/50 basis, sometimes very effective
 - Clusters are important outcome of success; unproven as vehicle for achieving success



Export lessons (continued)

- Role of SMEs
 - Initial benefits to most SMEs will be indirect, as suppliers to exporting firms
 - Initial successes of larger firms can be copied later by entrepreneurial SMEs

Attracting FDI

- FDI is critical to success of export push, as well as broader growth and development objectives, because it brings
 - Better technology
 - Knowledge of markets
 - Capacity to overcome bottlenecks
 - Myriad opportunities for learning and emulation



Key FDI issues

- Domestic business climate
- Access to local/regional markets
- Regulatory transparency
- One-stop investor support
- Strategy and targeting
- Relative production/shipment costs



FDI lessons

- Regulatory transparency
 - Long-term project—a decade or more
 - Quality of judicial system key, but use of international arbitration can help
 - Simplification of procedures, government use of Internet can build confidence

FDI lessons (continued)

- One-stop investor support
 - Not a panacea; problem is not just multiplicity of agencies, but multiplicity of requirements
 - Investor road maps can identify issues
 - Broad societal agreement on importance of FDI is critical to sustainability

FDI lessons (continued)

- FDI strategy and targeting
 - Countries need strategy, not just promotion
 - Promotion is most important for first firms in a business sector; later firms will come on their own
 - Offices abroad have high payoff, with right incentives
 - Government investment promotion usually weak or ineffective
 - Donor-supported NGOs most effective tool



Attracting FDI—Summing up

- Components of successful approaches have involved
 - Promotion of FDI
 - Support for NGO exporter associations
 - Sector-level technical assistance
 - Promotion of buyer linkages
 - 50/50 grants for export experimentation

